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VOL. CLIII NO. 97 Wednesday, May 18, 1988 153rd Year

Today

The Bank of New York Co. said it intends to pursue its hostile takeover attempt of Irving Bank Corp. despite having lost a proxy battle to gain control of Irving's board. 3

A communications blackout continues to hamper operations at many Chicago-area financial institutions a week after a fire at an Illinois Bell Telephone Co. switching station damaged telephone lines and sensitive electronic switching devices. 2

The largest British employee stock ownership plan, backed by Chemical Bank, will total about $20.8 million and cover about 6,000 workers at the MFI Furniture Group Ltd. 2

The head of structured finance at Manufacturers Hanover Trust Co., Carol W. Hance, and two colleagues have joined Kidder, Peabody & Co.'s receivables securitization group. 2

Concerns about computer security and personal privacy must be addressed if bankers, retailers, and government officials are to win acceptance of electronic payment systems in welfare and other public assistance programs. 32

Executive Changes 30
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COMMENT

Lack of adequate regulatory control over real estate appraisers is linked with widespread problems experienced by mortgage lenders, writes James Grant. 4

The virtues of the trade bill outweigh its vices, and it should be passed; but the legislation will not trigger a transformation of U.S. trade, says Robert J. Samuelson. 4

TECHNOLOGY

Bank fees for cash management services rose again in 1987, but the rate of increase remained well below the double-digit hikes of the early 1980s. 6

The availability deadline for ATM deposits was extended in the Fed's final version of Regulation CC. 6

A marketing alliance between Chase Manhattan Bank and an equipment manufacturer is expected to promote point-of-sale payment services to supermarkets and other retailers. 8

Computer Associates has started beta tests of new modules of Infoloans, which will be the major product in its Infopoint line of integrated applications for banks and thrifts. 9

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Worth Repeating

To go back a generation is even harder than going forward a generation.

Thomas H. Hackett, president of Heritage Bank in Woodridge, Ill., where teller machines were offline following a telephone company fire. [Page 2]

An American Banker Special Report

Bank Quandary: How to Sell Mutual Funds

By LYNN BRENNER

NEW YORK — Bankers are still pounding on the portals of the securities underwriting and insurance industries. But in the past five years, they've quietly slipped into the mutual fund business by a side door.

"I don't understand why so many bankers' associations keep talking about getting rid of Glass-Steagall so they can sell mutual funds," one longtime industry observer said recently. "They can do that already."

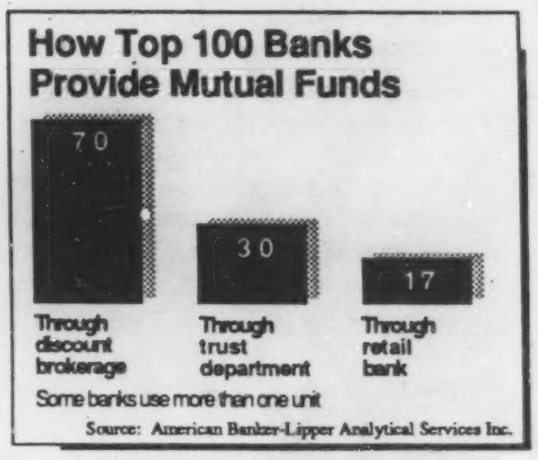
For at least 95% of the banks interested in selling mutual funds, in fact, the future of the Glass-Steagall Act is of only academic interest. They have all the mutual fund powers they need. Their real problem is figuring out how best to use those powers.

Responses to an American Banker/-Lipper Analytical Services Inc. survey of the nation's top 100 commercial banks suggest that few banks have yet solved that problem.

Survey Results Tables on Pages 18 and 20

An overwhelming majority of respondents (95%) confirm that they make mutual funds available to their customers or provide services to mutual funds, or both. But typically, these activities are scattered through several bank departments or subsidiaries — trust, bond, retail, discount brokerage. Often no one person at the institution is familiar with the extent of its mutual fund business.

The survey, a three-page questionnaire, was mailed to the chief executives at each bank, with a request to forward it to the appropriate person. A follow-up request was sent five weeks later.



Some questionnaires were filled out

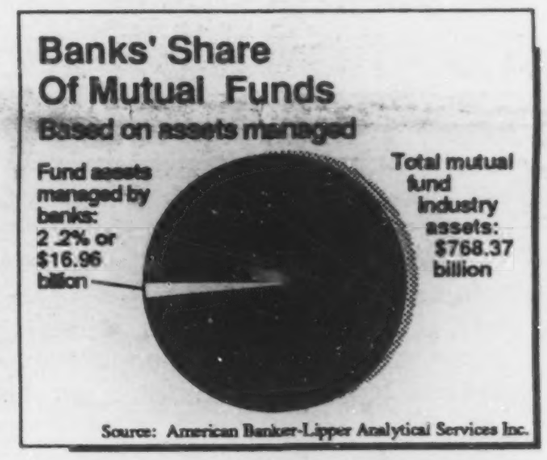
Banks: Page 22

Marriage of Convenience Tempts Fund Providers

By LYNN BRENNER

NEW YORK — The mutual fund industry is seriously considering banks as potential partners, since their entry into the business is seen as inevitable. But mutual fund executives contemplate the prospective alliance with mixed feelings — not unlike those of an exceptionally vain prince pondering the pros and cons of marriage to a dumpy, boring bourgeoise with a potentially stunning dowry.

Like most people in the securities business, many mutual fund executives find banks plodding, bureaucratic, and utterly devoid of marketing ability. On the other hand, 9 out of 10 Americans have a relationship with a bank and most of them don't yet own mutual funds. That's a lot of potential customers.


Banks' Share Of Mutual Funds
Based on assets managed
Fund assets managed by banks: 2.2% or $16.96 billion
Total mutual fund industry assets: $768.37 billion
Source: American Banker-Lipper Analytical Services Inc.

But can the banks really deliver their customer base? Is the dowry real or merely illusory?

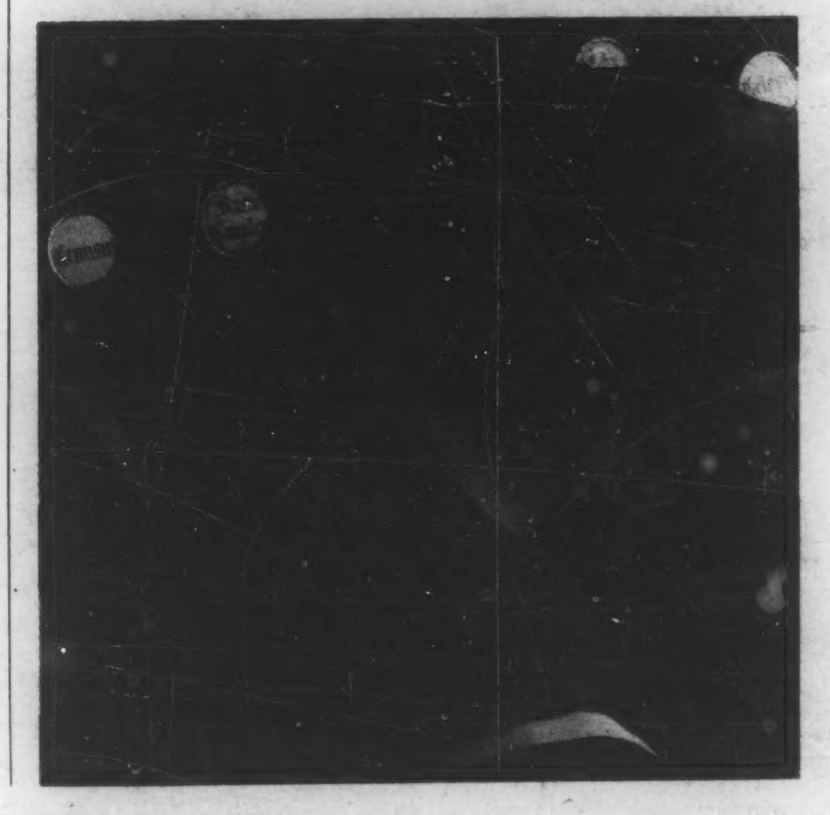
Even allowing for the legal restrictions that currently hamper many banks' marketing efforts, most fund executives interviewed said that with a few exceptions, bank mutual fund sales have been disappointing so far.

The exceptions are banks willing to market aggressively and to compensate their branch personnel for referring customers to licensed salespeople. "I don't think the marketing area — discount brokerage, retail, dealer department — matters so much as the attitude of the bank," said Joseph T. Grause Jr., vice president of Fidelity Investments Institutional Services.

Other fund executives agree. And although their experience so far has fallen short of expectations, fund companies clearly have not abandoned the idea of building a bank distribution

Mutual: Page 19

It's easier to pull out all the stops when you're the one who wrote the music.



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EDS/MTech

Appraisals for Sale Undermine Real Estate Values

The following article by James Grant is reprinted from the April 1 edition of Grant's Interest Rate Observer.

□

SUPPOSE that, with the government's blessing, you could borrow to the hilt against the value of an asset. Suppose that the privileged asset were common stock. People would say, "You're a fool not to own stock, and you're a fool not to buy it on margin. You can't afford not to borrow because the interest is deductible."

Imagine, in the same world, that the newspapers published no stock tables. If you wanted to know what your portfolio was worth, you could walk to the courthouse and look it up. Values would be set, mainly, by appraisal. Appraisers — a suggestible crowd — would produce the answers that the brokers and lenders asked for.

Something like this system, of course, is already a way of life in real estate, a vast and debt-laden market. According to the Federal Reserve Board, mortgage debt is something in the neighborhood of $2,883 billion. That dwarfs $1,202 million in corporate and foreign bonds, $721 billion in tax-exempt obligations or $753 billion in consumer credit. It runs neck and neck with the public debt, at $2,931 billion.

Mortgage debt is supported by "value," and the value is established, in part, by appraisal. Lately, the appraisal system has come in for congressional criticism, although the contretemps has been conducted as far from the front of *The Wall Street Journal* as a school board meeting.

Rep. Doug Barnard Jr., D-Ga., began to pry into real estate abuses in 1985. Last year a legislative remedy was proposed by Mr. Barnard, chairman of the subcommittee on commerce, consumer, and monetary affairs of the House Committee on Government Operations. It is H.R. 3675, a bill to impose national appraisal standards, introduce a form of appraiser licensing (the states would do that), and create a new appraisal regulatory body to shepherd the states through the licensing process.

Wall Street May Wake Up to Appraisals

Real estate appraisal is not an everyday topic of Wall Street conversation, but that may change if current unnerving trends continue. We read in a recent *Pensions & Investment Age,* for instance, that nonperforming mortgages held by insurance companies almost tripled in the past two years, to 3.23% of the insurers' total mortgage portfolios at yearend 1987 from 1.16% at yearend 1985. (Travelers Corp., with heavy exposure to Texas and the Southwest, has been especially hard hit.)

Meanwhile, residential mortgage delinquencies have become worrisomely detached from the ordinary rhythm of the business cycle. What is different about the recent rise in past-due payments is the expansive economic climate in which it has occurred.

Most of the nation, at least, is growing. As with so many departments of the credit markets these days, one wonders what the next recession will produce. It is hard to imagine delinquencies declining and easy to conceive of them jumping off the chart.

For another thing, mortgages are not merely made and kept nowadays; they are made and sold, or "securitized," so that crookedness, or malfeasance, in one market sector or region can quickly become a problem in other sectors and regions.

"Banks are moving more toward riskier real estate lending and away from more conservative commercial lending, which actually shrank by 2% last year," L. William Seidman, chairman of the Federal Deposit Insurance Corp., said recently.

In an inflationary time, the flood tide of money forgives everyone and everything. The ebb tide, though, is merciless; the beach it exposes is strewn with appraisals and, of course, enthusiasts.

Anyway, H.R. 3675 was the subject of some extensive testimony in February and March, and we ordered about a foot of the documents from Washington. It was riveting stuff.

More to Real Estate than Donald Trump

It did not suggest an immediate course of investment action, except to confirm a bear in the conviction that there is more to the real estate markets than Donald Trump. However, it did raise some questions and furnish some facts.

The expert witnesses, naturally, were divided on almost everything. They couldn't see eye too eye on the number of practicing real estate appraisers (estimates range from 150,000 to 250,000) or on the financial damage that faulty appraisal work has done or is likely to do in either the residential or commercial fields. (It was thought to be substantial.) They couldn't agree on the need for yet another new federal agency to tackle yet another financial problem.

In September 1986, Rep. Barnard's subcommittee produced a study concluding that slipshod appraisals "have seriously damaged and contributed directly to the insolvency of hundreds of the nation's financial institutions and have helped cause billions of dollars in losses to the federal deposit insurance funds, to federal programs that guarantee mortgage loans, and to private-sector mortgage insurance companies, lenders and investors in mortgage-backed securities.

It is hard to know just how to assign the blame among appraisers, lenders, developers, central bankers, and the forces of nature. Put another way, there is nothing wrong with any appraisal that a lot of inflation wouldn't fix. A man from the Federal National Mortgage Association testified that the quantity of appraisal work hadn't caused the devastating losses in Houston; house prices just crashed.

Accepting the congressman's premise that appraisers tend to err on the high side, however, we were left to draw the conclusion that financial leverage in real estate is probably higher than it seems. If appraised values are often higher than true ones, investor equity is lower than true equity.

Thrifts Fail when Appraisers Err

Therefore, the loss-absorbing cushion on the run of real estate deals is thinner than you'd think. (The Congressman again: "During hearings in Los Angeles this past summer into the insolvencies of 33 federally insured S&Ls in that state over the past three years, the subcommittee learned that appraiser misconduct was directly involved in thousands of defaulted real estate loans and investments that will cost the FSLIC. $3.5 billion.")

One striking piece of testimony was that of D. Michael Riley, director of examination and insurance of the National Credit Union Administration. The administration regulates some 14,300 credit unions with total assets of $162 billion — not a lot of money as banking assets go (Citicorp has over $200 billion).

What was notable about Mr. Riley's comment was what they revealed about consensus thinking at the nation's credit unions. Residential mortgage lending has grown by leaps and bounds, he testified.

Real estate loans at federally insured credit unions grew by 117% during 1985, 220% during 1986, and 46% during 1987. Real estate loans increased at federally insured credit unions from 8.5% of total loans outstanding in 1984 to 27% at yearend 1987.

As of Dec. 31, 1987, federally insured credit union held nearly $27 billion in real estate secured loans. In addition, the growing popularity of home equity lending programs promises even further increases in the volume of real estate loans held by credit unions. The growth in real estate lending at federally insured credit unions places increased importance on sound real estate appraisals.

However, Mr. Riley went on to say, the credit unions are not satisfied appraisal customers. He cited a lack of "consistent, uniform standards" among appraiser and recounted a couple of horror stories.

Case History of Bamboozlement

In one, a credit union was bamboozled by an appraiser who overvalued some properties by a neat 40%. The credit union failed. And, said, Mr. Ril-

Compliant: Page 24 ▶

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ECONOMIC PERSPECTIVE

The Trade Bill Should Be Passed Despite Its Flaws

By ROBERT J. SAMUELSON

TUCKED away in the massive trade bill that President Reagan will soon veto is a tiny provision that allows the government to pay hundreds of thousands of dollars in legal costs for the National Corn Growers Association. What's that got to do with trade? Not much. The Corn Growers spent the money unsuccessfully defending U.S. corn exports against protectionism in Canada. Government reimbursement would be subsidizing lawyers, not exports.

You're supposed to believe that the trade bill is about reducing the huge U.S. trade deficit. It isn't. Even if the bill ultimately becomes law — and that's possible — there wouldn't be any dramatic effect on the U.S. trade balance. What happens to the trade balance depends mostly on forces outside the control of either the President or Congress: exchange rates, the pace of world economic growth, and the competitiveness of U.S. companies.

Samuelson Says:

The bill's virtues outweigh its vices. But no one should think it will trigger a transformation of U.S. trade.

It is a fond Congressional myth that most problems can be solved by legislation. Almost no one believes this, but legislators perpetuate the myth so that the public will think Congress is "doing something" about pressing problems. In an election year, the mythology and accompanying partisanship are magnified. Thus, the Democratic congressional leadership portrays the trade bill as a decisive rejection of a passive Reagan trade policy in favor of its own activist approach.

This is public relations. If the veto is upheld, Congress ought to pass a bill without the requirement for advanced notice of layoffs that the President opposes. The bill's virtues outweigh its vices. But no one should think it will trigger a transformation of U.S. trade. Many provisions (like the giveaway to the Corn Growers) barely deal with trade. For instance, the bill would repeal the windfall profits tax on oil. Even the layoff notice requirement isn't strictly related to trade, because most layoffs aren't caused by imports.

As for changes in the trade laws, they are so technical that almost no one is certain what the effects will be. The avowed purpose is to open overseas markets by having the President investigate "unfair" foreign trade practices and then retaliate if other countries don't reduce their restrictions. But even if all unfair foreign practices were instantly eliminated, the trade deficit would shrink by only 10% to 20%. And, of course, this sort of sweeping success is wildly improbable.

Perspective: Page 28 ▶

Mr. Samuelson also writes a biweekly column for *Newsweek* magazine. His column for the *American Banker* appears every other Wednesday.

May 18, 1988, American Banker

Mutual Fund Activities of the Top 100 Banks

Survey by American Banker — Lipper Analytical Services, Inc.

Deposit Rank		Deposits 12/31/87 ($ Bil.)	Offer Mutual Funds?[1]	Where funds are provided in bank: Trust Dept.	Retail Bank	Discount Brokerage	Mutual Fund Services Provided by the Bank
1	**Citibank NA, New York**	$104.9	NR			•	Investment Advisor; Custodian
2	**Bank of America NT&SA, San Francisco**	70.2	NR				Custodian
3	**Chase Manhattan Bank NA, New York**	63.7	NR				Investment Advisor; Custodian
4	**Morgan Guaranty Trust Co., New York**	45.8	NR				Investment Advisor; Custodian; Transfer Agent
5	**Manufacturers Hanover Trust Co., New York**	45.7	NR			•	Custodian; Transfer Agent
6	**Chemical Bank, New York**	42.2	Yes	•	•		Invest. Advisor; Custodian; Transfer Agent; Shrhld. Serv. Agent; Agent
7	**Security Pacific National Bank, Los Angeles**	33.8	NR			•	Investment Advisor
8	**Wells Fargo Bank NA, San Francisco**	32.4	NR			•	Investment Advisor
9	**Bankers Trust Co., New York**	32.2	NR				Investment Advisor
10	**First National Bank of Chicago**	27.2	NR			•	Investment Advisor; Custodian
11	**Continental Illinois National Bank & Trust Co., Chicago**	19.7	Yes	•		•	
12	**First National Bank, Boston**	17.0	Yes	•	•	•	Custodian; Transfer Agent; Shareholder Serving Agent
13	**First Interstate Bank of California, Los Angeles**	16.8	NR			•	Investment Advisor; Custodian; Transfer Agent
14	**Marine Midland Bank NA, Buffalo, N.Y.**	16.6	NR			•	Investment Advisor; Custodian
15	**Bank of New York**	16.4	NR			•	Custodian; Transfer Agent
16	**Mellon Bank NA, Pittsburgh**	15.3	Yes	•	•	•	Invest. Advisor; Custodian; Transfer Agent; Shrhld. Serv. Agent
17	**Republic National Bank, New York**	12.8	Yes	•			Invest. Advisor; Custodian; Transfer Agent; Shareholder Serving Agent
18	**Irving Trust Co., New York**	12.1	Yes	•	•		Custodian; Shareholder Serving Agent
19	**First Bank NA, Minneapolis**	11.5	NR			•	Custodian
20	**Boston Safe Deposit & Trust Co.[1]**	11.4	No[1]	•			Investment Advisor; Custodian; Transfer Agent
21	**National Bank of Detroit**	10.9	Yes	•	•	•	Invest. Advisor; Custodian; Transfer Agent; Shrhld. Serv. Agent; Agent
22	**NCNB National Bank of North Carolina, Charlotte**	10.6	Yes	•		•	Agent
23	**Sovran Bank NA, Richmond**	9.7	Yes	•		•	Investment Advisor
24	**National Westminster Bank USA, New York**	9.5	Yes	•		•	Custodian; Agent
25	**Bank of New England NA, Boston**	9.4	NR			•	Custodian; Transfer Agent
26	**Southeast Bank NA, Miami**	9.4	NR				
27	**Wachovia Bank & Trust Co, NA, Winston-Salem, N.C.**	9.1	NR			•	
28	**Valley National Bank, Phoenix**	8.9	NR				Investment Advisor
29	**Pittsburgh National Bank**	8.6	Yes			•	
30	**First RepublicBank Dallas NA**	8.4	Yes	•		•	Investment Advisor; Shareholder Serving Agent
31	**Citizens & Southern National Bank, Atlanta**	8.1	Yes			•	Custodian
32	**Seattle-First National Bank**	8.1	Yes	•	•		Custodian; Shareholder Serving Agent; Agent
33	**First Union National Bank, Charlotte, N.C.**	8.1	NR			•	Investment Advisor
34	**First Fidelity Bank NA, Newark, N.J.**	7.6	NR			•	Investment Advisor
35	**Connecticut National Bank, Hartford**	7.4	Yes	•		•	Custodian; Agent
36	**Connecticut Bank & Trust Co, NA, Hartford**	7.3	Yes		•	•	Custodian; Transfer Agent; Shareholder Serving Agent
37	**Union Bank, Los Angeles**	7.2	Yes	•	•	•	Investment Advisor; Shareholder Servicing Agent
38	**Fidelity Bank NA, Malvern, Pa,**	6.9	NR			•	
39	**Michigan National Bank, Farmington Hills**	6.9	Yes			•	
40	**Maryland National Bank, Baltimore**	6.8	NR			•	
41	**NCNB National Bank of Florida, Tampa**	6.8	NR				
42	**Texas Commerce Bank NA, Houston**	6.7	NR			•	Custodian
43	**Crestar Bank, Richmond**	6.6	Yes		•	•	Investment Advisor
44	**Philadelphia National Bank**	6.4	NR				Custodian
45	**Harris Trust & Savings Bank, Chicago**	6.2	Yes	•	•	•	Investment Advisor; Custodian
46	**Rainier National Bank, Seattle**	6.2	NR			•	
47	**Manufacturers National Bank, Detroit**	6.0	Yes	•		•	Investment Advisor; Custodian
48	**AmeriTrust Co, NA, Cleveland**	6.0	Yes	•	•	•	Invest. Advisor; Custodian; Transfer Agent; Shrhld. Serv. Agent
49	**Florida National Bank, Jacksonville**	5.9	NR			•	
50	**United States National Bank, Portland, Ore.**	5.8	Yes	•	•	•	Investment Advisor; Shareholder Serving Agent; Custodian
51	**Comerica Bank-Detroit**	5.7	Yes	•		•	Investment Advisor; Agent
52	**First Union National Bank of Florida, Jacksonville**	5.7	Yes	•	•	•	
53	**Huntington National Bank, Columbus, Ohio**	5.6	Yes*	•		•	Investment Advisor
54	**First Interstate Bank of Arizona NA, Phoenix**	5.6	NR				
55	**Meridian Bank, Reading, Pa.**	5.5	NR			•	
56	**MBank Dallas NA**	5.5	NR			•	
57	**Northern Trust Co., Chicago**	5.4	NR			•	
58	**California First Bank, San Francisco**	5.4	Yes			•	
59	**Bank of Tokyo Trust Co., New York**	5.4	NR				
60	**Signet Bank/Virginia, Richmond**	5.2	NR			•	
61	**First National Bank, Atlanta**	5.0	NR			•	
62	**Riggs National Bank, Washington, D.C.**	5.0	NR				Custodian
63	**Shawmut Bank NA, Boston**	5.0	NR			•	Custodian; Transfer Agent
64	**Fleet National Bank, Providence, R.I.**	5.0	Yes	•		•	Investment Advisor
65	**National City Bank, Cleveland**	4.9	Yes	•			Investment Advisor
66	**Bank of Hawaii, Honolulu**	4.8	Yes		•		
67	**First Interstate Bank of Oregon NA, Portland**	4.7	NR				Custodian
68	**AmSouth Bank NA, Birmingham, Ala.**	4.7	NR			•	
69	**Provident National Bank, Philadelphia**	4.6	NR				Custodian; Transfer Agent
70	**State Street Bank & Trust Co., Boston**	4.5	NR				Custodian; Transfer Agent
71	**European American Bank, New York**	4.5	NR			•	
72	**Banco Popular de Puerto Rico, San Juan**	4.5	NR				
73	**Barnett Bank of South Florida NA, Miami**	4.4	NR			•	
74	**Society National Bank, Cleveland**	4.4	NR			•	
75	**First Tennessee Bank NA, Memphis**	4.4	Yes	•		•	Custodian; Transfer Agent; Agent
76	**Citizens & Southern National Bank, Fort Lauderdale, Fla,**	4.2	NR			•	Custodian
77	**Sanwa Bank California, San Francisco**	4.2	NR				
78	**First Pennsylvania Bank NA, Philadelphia**	4.1	Yes	•	•	•	Invest. Advisor; Custodian; Transfer Agent; Shrhld. Serv. Agent
79	**Hibernia National Bank, New Orleans**	4.1	Yes	•		•	Agent
80	**First Florida Bank NA, Tampa**	4.1	NR			•	
81	**Arizona Bank, Phoenix**	4.0	No				
82	**Norwest Bank Minneapolis NA**	3.9	Yes	•	•	•	Invest. Advisor; Custodian; Transfer Agent; Shrhld. Serv. Agent
83	**First National Bank of Maryland, Baltimore**	3.8	NR			•	
84	**Trust Company Bank, Atlanta**	3.7	NR			•	Custodian
85	**MBank Houston NA**	3.7	NR			•	
86	**American Security Bank NA, Washington, D.C.**	3.7	Yes			•	Custodian; Shareholder Serving Agent
87	**BancOhio National Bank, Columbus**	3.6	Yes		•	•	Shareholder Serving Agent
88	**Israel Discount Bank, New York**	3.6	NR				
89	**First Alabama Bank, Montgomery**	3.6	NR			•	
90	**Norstar Bank of Upstate NY, Albany**	3.5	NR			•	
91	**Midlantic National Bank, Newark, N.J.**	3.5	Yes	•		•	Investment Advisor
92	**Chase Lincoln First Bank NA, Rochester, N.Y,**	3.5	NR			•	Investment Advisor; Custodian
93	**South Carolina National Bank, Columbia**	3.5	NR			•	
94	**Mellon Bank (East) NA, Philadelphia**	3.4	NR				Custodian; Transfer Agent
95	**Citibank (New York State), Perinton**	3.4	NR				
96	**Central Fidelity Bank, Richmond**	3.4	NR				
97	**Citizens Fidelity Bank & Trust Co., Louisville, Ky.**	3.3	NR			•	Investment Advisor
98	**Mercantile Bank NA, St. Louis**	3.3	NR			•	
99	**Sumitomo Bank of California, San Francisco**	3.3	Yes	•			
100	**First Hawaiian Bank, Honolulu**	3.3	NR				

Sources of Data: American Banker-Lipper Analytical Services, Inc. questionnaire sent to each of the top 100 banks during the period February-April 1988. For those banks not responding to the survey other American Banker and Lipper data were used. **Survey Response:** To determine whether or not a bank provides mutual fund services, the first survey question asks, "Do the bank's customers purchase or redeem shares of mutual funds through any of the bank's divisions or subsidiaries?" A "Yes" response indicates the bank offers mutual funds. A "No" response indicates the bank does not. "NR" indicates that the bank did not respond to the survey; therefore other data were used to supplement and complete the table above. **(1)**— Although the bank responded "no" to the survey, other data show that it provides mutual fund services to its customers either directly or though its parent, The Boston Co. **Mutual Fund Services Provided by the Bank:** The five types of services are: **Investment Advisor**, where the bank is employed by a mutual fund to give professional advice on the fund's investments and to supervise the management of its assets; **Custodian**, where the bank maintains a mutual fund's assets, including portfolio securities or some record of them. Provides safekeeping of securities but has no role in portfolio management; **Transfer Agent**, where the bank is employed by mutual funds to prepare and maintain records relating to shareholder accounts. Some mutual fund groups operate in-house transfer agencies; **Shareholder Servicing Agent**, where the bank is responsible for answering customer inquiries and generally assist in other matters pertaining to the fund and its customers; and **Agent**, where the bank intoduces its customer to a mutual fund.

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Mutual Funds Contemplate Marriage of Convenience with Banks

Continued from Page 1

network. In 1982, only three companies — Dreyfus Corp., Fidelity Investments, and Federated Research Corp. — sold products through banks. Many firms have jumped into the bank market since then.

Bankers say one of the most assiduous in courting them is Kemper Financial Services, which didn't start offering products through banks until 1986. The firm now has selling agreements with 270 of the nation's top 300 commercial banks.

Kemper is also one of the most successful companies at selling products through banks. "Last year, we sold nearly $1 billion of mutual funds through commercial banks. That was a shade under 15% of our mutual fund volume for the year," said Mark Olson, first vice president and national sales director of insurance and banking at Kemper. The company expects banks to account for almost 20% of mutual fund volume in 1988.

"Everyone at the bank — the teller, the parking garage attendant, the new accounts officer — all of them should be involved in marketing," said Mr. Olson. "All these people should funnel customers to the investment department."

Intensive Training Program

Kemper has an intensive training program designed to teach mutual fund marketing to everyone in the bank. "There's been more demand for training than we can keep up with. We may double or even triple the training staff," he said.

Intensive training of bank personnel may be the key, said Michael Lipper, president of Lipper Analytical Services Inc., Summit, N.J. "Banks are a distribution point, but they're not [a] distribution [network] yet," he said. "Can they be trained? Yes, but it's terribly expensive, and so is the back-office support. You need a Kemper-sized organization to afford it."

Five years ago, a bank typically offered the funds of only two or three providers. Today, it's more common for an institution to make available products from 10 to 20 providers.

The big providers have been quick to adjust to this trend. For example, Kemper's bank business is not limited to the funds it sells through Kemper Financial Services. The company also owns approximately 41% of ISFA Corp.'s Invest, a Florida-based broker-dealer that markets securities and insurance products through nearly 300 thrifts and credit unions nationwide. Invest is not limited to selling Kemper products.

Fidelity Investments has also positioned itself to get a piece of the action whenever a bank sells a mutual fund — whether or not the fund is Fidelity's. Early this year, the firm created Fundsmart, an automated accounting system that effectively gives a bank its own mutual fund clearing house.

Fundsmart will allow banks to produce consolidated statements, reinvest dividends, and buy fractional shares for their customers. Fidelity's subsidiary National Financial Institutional Services, which began marketing Fundsmart last month, claims the system will give banks a competitive advantage over many broker-dealers in selling "virtually every mutual fund on the market."

The Boston-based firm thinks that most financial institutions ultimately will offer funds from many providers rather than create their own or limit themselves to selling agreements with two or three fund companies, said Mr. Grause.

But many bankers don't see themselves as mere marketers of product. They want to create, manage, and sell their own mutual funds. At least a dozen banks have already come as close as they legally can to doing that, by acting as investment advisers to their own proprietary, or private label, funds.

So far, banks have not had notable success at persuading customers to invest in the mutual funds they manage. At the end of 1987, the funds ranged in size from $2 million to $1.3 billion. By far the largest in asset size were money market and government funds, suggesting that the bulk of money in them comes from the banks' deposits.

"The assets banks already have, captive assets, can be used to start a fund," said Howard Stein, chairman of Dreyfus Corp. "But they can't bring in enough new business to be profitable. They can't leverage that base into a business."

Dreyfus has a lot of experience working with banks. The New York-based firm has marketed through banks since

Mutual: Page 21

TempFund outperforms the competition...again!

Donoghue's *Money Fund Report** has again ranked TempFund, Shearson Lehman Hutton's institutions-only money market fund, as the #1 performer in its category for the five years ended 12/31/87.**

What makes this achievement all the more impressive is the fact that TempFund has outperformed its competitors without lowering its high quality standards. As a result, TempFund has earned a reputation as the quality choice for meeting the short-term investment needs of bank trust departments that seek safety of capital and liquidity, as well as competitive returns.

That's why it should come as no surprise that institutions across America have over $8 billion invested in TempFund.

TempFund and the Shearson/Provident Advantage

Provident Institutional Management Corporation (PIMC), the investment adviser to TempFund, has a long history of high quality money market fund management. PIMC has also been successful in achieving competitive performance throughout the course of complete interest rate cycles.

As the Fund's distributor, Shearson provides customized institutional services through its nationwide network of Institutional Funds Shareholder Representatives. And through our Institutional Funds Computer Access Program, investors in TempFund – or any one of our institutions-only funds – have direct microcomputer access to current Fund information.

Call the IFG Service Center Today

For a Prospectus and complete information on TempFund and the Shearson/Provident Advantage, contact your Institutional Funds Group Shareholder Representative. Or call the Institutional Funds Group (IFG) Service Center at 1-800-221-8120. Please read the Prospectus carefully before you invest.

*Published by The Donoghue Organization, Inc. of Holliston, MA 01746, a nationally recognized money market fund reporting service.

**TempFund was ranked #1 among 34 taxable institutions-only money funds on the basis of the growth of a $10,000 investment for the five year period ended 12/31/87. Performance figures were obtained from the 19th edition of Donoghue's *Mutual Funds Almanac*. Current annualized yield for the seven days ended 4/27/88 was 6.62%. The Fund's yield will fluctuate as market conditions change.

The Institutional Funds Group

SHEARSON LEHMAN HUTTON

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Summary of Survey Findings

Providers of Mutual Fund Services Through Trust Departments

Dep. Rank		Services Provided by Banks: Agent	Invest. Adv.	Serv. Agent/ Cust.	Tran. Agent	Top Managegment Companies
6	Chemical Bank	•				N.A.
11	Continental Illinois[1]					Fidelity
12	First Nat'l Bank, Boston			•	•	N.A.
16	Mellon Bank NA		•	•	•	Shearson; Frank Russell
17	Republic Nat'l Bank		•	•	•	Furman, Selz; Fideiity
18	Irving Trust Co.			•		Federated; Lazard Freres
21	National Bank of Detroit	•	•	•	•	Fidelity; Federated
22	NCNB Nat'l Bank of N.C.	•				Van Kamp. Mer'tt; Nuveen
23	Sovran Bank NA		•			Flagship; Kemper
24	Nat'l Westminster Bank USA	•				N.A.
30	First RepublicBank Dallas NA		•	•		Van Kamp. Mer'tt; Nuveen
32	Seattle-First National Bank	•				Kemper; Nuveen
35	Connecticut National Bank	•				Putnam
37	Union Bank		•			Fidelity; Dreyfus
45	Harris Trust & Savings Bank		•			N.A.
47	Manufacturers National Bank		•			Fairfield Gp.; S.E.I.
48	AmeriTrust Co. NA		•	•	•	N.A.
50	United States National Bank			•		S.E.I.; Federated
51	Comerica Bank-Detroit	•	•			Fidelity
52	First Union Nat' Bank of Fla.[1]					Kemper; Putnam
53	Huntington National Bank		•			N.A.
64	Fleet National Bank		•			Goldman Sachs
65	National City Bank		•			N.A.
75	First Tennessee Bank NA	•				N.A.
78	First Pennsylvania Bank NA		•	•		Fairfield Group, Inc.
79	Hibernia National Bank	•				Kemper; Fidelity; Dreyfus
82	Norwest Bank Minneapolis NA		•	•	•	Dreyfus; Kemper
91	Midlantic National Bank		•			N.A.
99	Sumitomo Bank of Calif.[2]					Dreyfus; Shearson

Source: American Banker — Lipper Analytical Services, Inc. Survey of the Mutual Fund Activities of the Top 100 Commercial Banks. Of the top 100, 40 banks (40%) responded. Of the 40 responding, 38 (95%) provide mutual funds to customers. Of the 38, the 29 banks above (76% of the respondents) provide mutual funds through the trust department. **(1)**— Did not indicate role. **(2)**— Indicated role was "other" than the four roles described below. **N.A.**— Not available.

Agent: The bank acts as an intermediary for the purpose of making funds available to its customers.

Investment Advisor: The bank employed by a mutual fund to give professional advice on the fund's investments and to supervise the management of its assets.

Transfer Agent: The bank employed by mutual funds to prepare and maintain records relating to shareholder accounts. Some mutual fund groups operate in-house transfer agencies.

Shareholder Servicing Agent: The bank is responsible for answering customer inquiries and generally assists in other matters pertaining to the fund and its customers.

Custodian: The bank maintains a mutual fund's assets, including portfolio securities or some record of them. Provides safekeeping of securities but has no role in portfolio management.

Banks Providing Mutual Fund Services Through the Retail Bank/Discount Brokerage Units

Dep. Rank		Type of Funds Offered[1] A	B	C	D	E	F	Largest Source of Funds[2]	Top Management Cos.
6	Chemical Bank	•	•	•	•	•	•	(h)	Fidelity
11	Continental Illinois NB&T Co.	•	•	•	•	•	•	(b)	Fidelity
12	First National Bank, Boston[6]							(h)	N.A.
16	Mellon Bank NA, Pittsburgh	•	•	•	•	•		(g)[3]	Frank Russell; Dreyfus
18	Irving Trust Co., New York[4]	•	•	•	•	•	•	(g)[5]	Fidelity
21	National Bank of Detroit	•	•		•		•	(e)	Fidelity; Federated
22	NCNB Nat'l Bank of N. Carolina	•	•	•	•	•	•	(f)	N.A.
23	Sovran Bank NA, Richmond	•	•	•		•	•	(c)	Dreyfus; Flagship
24	National Westminster Bank USA	•	•	•	•	•	•	(d)	N.A.
31	Citizens & Southern Natl Bank	•	•	•			•	(f)	Putnam; Franklin
32	Seattle-First National Bank	•	•	•	•	•	•	(a)	Reich & Tang; Dreyfus
35	Connecticut National Bank	•	•		•	•	•	(c)	Fidelity; Kemper
36	Connecticut B & T Co. NA[4]	•	•	•	•	•	•	(b,d,e)	Putnam
37	Union Bank, Los Angeles	•	•	•	•	•	•	(h)	Fidelity; Dreyfus
39	Michigan National Bank[6]							(c)	Dreyfus; Kemper
43	Crestar Bank, Richmond[6]							(a)	Federated; Dreyfus
45	Harris Trust & Savings Bank	•	•	•	•	•	•	(c,d,f)	Fidelity; Nuveen
47	Manufacturers National Bank	•	•	•	•	•	•	(h)	Fidelity
48	AmeriTrust Co. NA, Cleveland	•	•	•	•	•	•	(h)	N.A.
50	United States National Bank	•	•	•	•			(a)	Federated; S.E.I.
51	Comerica Bank-Detroit	•	•	•	•	•	•	(b)	Fidelity
52	First Union Nat'l Bank of Fla.	•	•	•	•	•	•	(d)	N.A.
53	Huntington National Bank[6]							(h)	N.A.
58	California First Bank	•	•	•			•	(h)	N.A.
64	Fleet National Bank	•	•	•	•	•	•	(g)[5]	Fidelity; Shearson
66	Bank of Hawaii[6]							(g)[7]	N.A.
75	First Tennessee Bank NA	•	•				•	(d)	N.A.
79	Hibernia National Bank[6]							N.A.	N.A.
78	First Pennsylvania Bank NA	•			•			(f)	Fairfield Group
82	Norwest Bank Minneapolis NA	•	•	•	•	•		(e)	Keffer Capital
86	American Security Bank NA					•	•	(c)	Dreyfus; Federated
87	BancOhio National Bank	•	•	•	•	•	•	(d,f)	Kemper
91	Midlantic National Bank	•	•	•	•	•	•	(h)	Dreyfus; Franklin

Source: American Banker — Lipper Analytical Services, Inc. Survey of the Mutual Fund Activities of the Top 100 Commercial Banks. Of the top 100, 40 banks (40%) responded. Of the 40 responding, 38 (95%) provide mutual funds to customers. Of the 38, 33 banks (87% of the respondents) reported that they provide mutual funds to customers through the retail bank and/or through discount brokerage subsidiaries.

(1)— Types of Funds Offered: A—Equity oriented; **B**—Taxable fixed income; **C**—Balanced funds; **D**—Short-term funds; **E**—Short-term municipal bond funds; and **F**—Long-term municipal bond funds.

(2)— Sources of Funds: (Banks were asked to identify the biggest **single** source of money used for the purchase of mutual funds) **(a)** Bank's own certificates of deposit; **(b)** Bank's own savings accounts; **(c)** Bank's own checking accounts; **(d)** Checks drawn on other financial institutions **(e)** Checks drawn on other mutual funds; **(f)** Checks drawn on brokerage account; **(g)** Other (specify); and **(h)** Do not know. **(3)**— Master custody account. **(4)**— In addition to the funds listed, the bank offers an international fund. **(5)**— Trust balances. **(6)**— Did not specify types of funds offered. **(7)**— IRA deposits at bank. **N.A.**— Not available.

Banks Acting as Investment Advisor

Listed in order of total net assets under management on Dec. 31, 1987 (millions of dollars)

Dep. Rank		No. of Funds	Assets Under Mgmt.
4	Morgan Guaranty Trust Co., New York	5	2,484.5
7	Security Pacific National Bank, Los Angeles	7	2,136.6
57	Northern Trust Co., Chicago	3	1,970.2
20	Boston Safe Deposit & Trust Co.[1]	12	1,137.7
169	United States Trust Co., New York	9	1,059.1
14	Marine Midland Bank NA, Buffalo, N.Y.	7	1,016.8
301	Delaware Trust Co., Wilmington	1	881.3
34	First Fidelity Bank NA, Newark, N.J.	5	837.4
13	First Interstate Bank of California, Los Angeles	2	601.9
121	First National Bank of Louisville, Ky.	4	576.0
1	Citibank NA, New York	3	570.2
47	Manufacturers National Bank, Detroit	5	547.6
92	Chase Lincoln First Bank NA, Rochester, N.Y.	2	419.1
17	Republic National Bank, New York	5	380.4
10	First National Bank of Chicago	4	378.9
21	National Bank of Detroit	2	378.9
23	Sovran Bank NA, Richmond	2	350.3
3	Chase Manhattan Bank NA, New York	2	326.2
97	Citizens Fidelity Bank & Trust Co., Louisville, Ky.	2	177.6
9	Bankers Trust Co., New York	7	118.5
6	Chemical Bank, New York	2	116.1
365	First RepublicBank Fort Worth NA, Tex.[2]	1	101.5
182	M & I Marshall & Ilsley Bank, Milwaukee	3	101.0
135	Rhode Island Hospital Trust National Bank	1	87.1
28	Valley National Bank, Phoenix	1	76.5
19	First Bank NA, Minneapolis	1	68.7
33	First Union National Bank, Charlotte, N.C.	1	21.6
8	Wells Fargo Bank NA, San Francisco	1	17.6
48	AmeriTrust Co. NA, Cleveland	2	10.8
176	United Bank of Denver NA	1	7.7
	Totals	103	$16,957.3

Source of Data: Lipper Analytical Services, Inc.

For the purpose of this listing, **banks** include wholly-owned investment advisory subsidiaries

(1)— The bank provides investment advisory services to its customers either directly or though its parent, The Boston Co. **(2)**— Formerly InterFirst Bank Fort Worth NA

How Banks Think They're Doing

Banks' perception of success in offering mutual funds

Methods Used by Banks to Offer Mutual Funds to Customers	% Using Method	Banks' Rating of Success: High	Moder.	Low
By third party on premises, including discount broker	27%	57%	43%	0%
By bank personnel on bank premises	81	52	43	5
Off bank premises by bank	23	0	83	17
Offered in statement stuffers	69	11	67	22
Advertised in newspapers or magazines	42	9	36	55
Advertised on television or radio	12	0	0	100

Based on Survey of the Top 100 Banks by American Banker — Lipper Analytical Services, Inc. Forty of the top 100 banks in the nation responded to the survey.

How the Survey Was Conducted

The **American Banker,** working in conjunction with Lipper Analytical Services Inc., developed a three-page questionnaire that was mailed to the chief executives of the top 100 banks in late February.

A followup questionnaire was sent five weeks later to banks that did not respond. Also, for the top 25 banks, a third request was sent to public relations officers about one week after the mailing of the second request. Forty banks responded to these requests for data. Five other banks informed the **American Banker** that data for their banks would not be available. The survey results were supplemented with additional data provided by Lipper Analytical to develop the table entitled "Mutual Fund Activities of the Top 100 Banks."

The tabulation of the questionnaires was done jointly by American Banker and Lipper Analytical staff. L. Michael Cacace, American Banker's chief statistician, coordinated the survey.

Mutual Funds Contemplate Marriage of Convenience with Banks

Continued from Page 19

1982 and now has contracts with 400. It was also the first mutual fund company to help a bank create a private-label fund, agreeing to distribute the Pacific Horizon funds managed by Security Pacific in early 1984. The arrangement was discontinued last year by mutual consent.

Dreyfus also distributed the Park Avenue funds managed by Chase Manhattan, from late 1984 to mid-1987. The firm's only current private-label fund arrangement is as distributor of First National Bank of Chicago's First Lakeshore Funds.

So far, banks have not had notable success in persuading customers to invest in mutual funds.

Mr. Stein said he would not consider doing any more private-label funds.

Bankers and mutual fund executives are wrong in assuming that a bank's customer list will prove a gold mine of mutual fund prospects, he said. "The bank customer list is relatively unimportant in the mutual fund industry, because the larger part of the list are people who borrow money and cash checks," he said. "To the degree that bank customers invest, they're already doing it in the outside world and have a certain view of banks' ability to manage money."

Whether or not banks' poor image as money managers is justified, Mr. Stein said, it will take "a deep marketing effort, manned by selling people" to change that image. The high cost of such an effort seriously reduces the chances that a bank's mutual fund can be profitable.

"Look at the money raised and spent by Citibank, Chase Manhattan, Security Pacific. Subtract the captive assets used to start the business, the money *that was already there*, and look at what they raised," he said. "We track it week by week, and it's de minimus."

Name Brands Outsell Private Labels

Bank-managed funds are competing in a crowded market. "Our experience is that where there's a mix of funds available at a bank, both outside funds and in-house funds, the name-brand fund outdraws the proprietary fund," said Mr. Grause of Fidelity. His company currently administers 10 private-label funds and has several more in the works. "Bank customer loyalty has not translated as fast or as well as expected into nonbank, non-FDIC products."

That is true even when the product marketing is done by an experienced mutual fund company.

For example, Dreyfus advertised Chase Manhattan's Park Avenue New York Tax-Exempt Money Market Fund every week for nearly three years, according to Mr. Stein. "The fund never got more than about $300 million," he said. Then, in June 1987, after the arrangement with Chase ended, Dreyfus introduced a New York tax-exempt fund of its own. "In three or four months, our fund had passed the money it took us years to get in the Park Avenue fund," he said.

At the end of April, the nine-month-old Dreyfus fund had $364.3 million under management. The three-and-a-half-year-old Chase Park Avenue fund had $275.5 million under management — more than half of it trust department assets, according to a source familiar with the fund.

Despite this negative experience, banks continue to hunger for private-label funds, and mutual fund companies are increasingly willing to help set them up.

"Mutual fund companies want bank trust departments to invest in their funds. They want the bank's discount brokerage and dealer departments to sell their funds. They're not crazy about creating a private-label fund," said Brian Smith, former general counsel for the Office of the Comptroller of the Currency and now a partner at Stroock, Stroock & Lavan. "But if that's what it takes to get the trust and brokerage business, they will." ■

FIserv Acquires Service Bureaus

NEW YORK — FIserv Inc., a rapidly growing data processing company based in Milwaukee, has announced the latest in a string of acquisitions of bank service bureaus.

FIserv said it is taking over ZFC Electronic Data Services Inc., Bowling Green, Ky., which provides computer support to 25 banks in Kentucky, Indiana, and Tennessee. The relatively small banks have combined assets of $1 billion.

The closing is set to take place today. FIserv did not disclose the terms of the transaction. FIserv plans to change ZFC's name to FIserv Bowling Green and install Thomas Blair as its president. Mr. Blair was president of ZFC.

Just last week, FIserv completed a merger with Citizens Financial Corp., Cleveland. The latter's principal subsidiary, Champion Service Corp., became FIserv Cleveland, the 14th of FIserv's data centers. The data centers together serve more than 600 financial institutions in 27 states.

The Cleveland acquisition came three months after FIserv's purchase of Minnesota On-Line Inc., a Minneapolis service bureau for credit unions.

"FIserv continues to seek out and acquire strong regional data processors who have a positive reputation for service and product development," said George Dalton, chairman of FIserv. "ZFC fits this criterion as well as having an outstanding management and staff."

FIserv also owns First Trust Corp., a Denver-based administrator of trust and retirement programs; Sendero Corp., a Phoenix-based education and software firm specializing in asset and liability management; and FIserv Forms and Graphics, a business forms supplier with offices in Seattle and Milwaukee. ■

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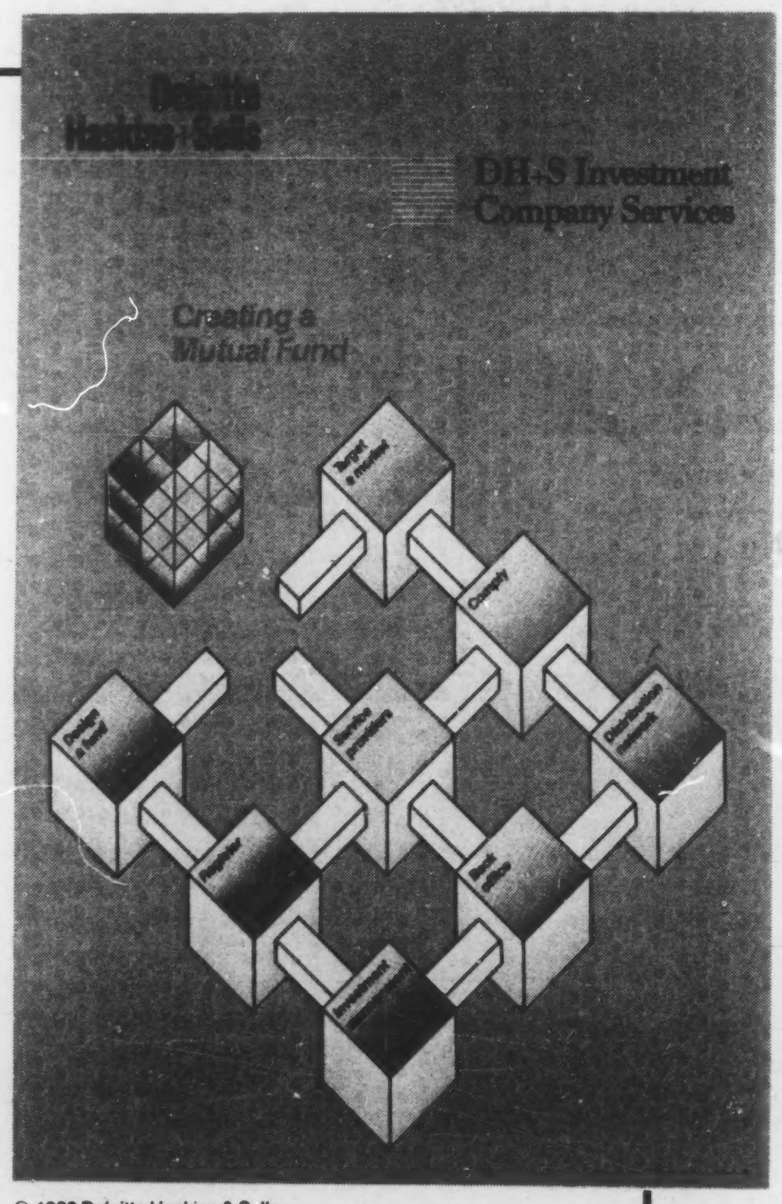

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May 18, 1988, American Banker

Banks Uncertain How to Use Mutual Fund Powers

→ Continued from Page 1

by more than one person. In other cases, questionnaires were copied and circulated among bank departments and affiliates, with one individual at each institution designated to complete a final version based on several drafts.

In all, 40 of the top 100 banks responded, 5 declined to participate, and 55 did not respond. The absence of a central source of information may be the reason the remaining 55 banks did not respond. As a glance at the table on page 18 shows, the banks that did not respond are as involved in the mutual fund business as are the respondents.

The survey shows the extent to which many of these banks are groups of fiefdoms rather than unified entities. In this sense it faithfully pinpoints the source of one of their greatest difficulties in offering mutual funds, according to industry sources.

"Turf is a political dilemma in the bank," said Mark Olson, first vice president and national sales director of insurance and banking at Kemper Financial Services, which has selling agreements with 270 banks. "They don't see all customers as customers of the bank. The first thing our mutual fund training program has to do is knock down the walls inside the bank."

The fact that banks' mutual fund activities are so fragmented suggests that senior management is not seriously committed to the business. This, too, is confirmed by mutual fund executives.

"I think a minority, maybe 15 or 20 of the top 100 banks, see mutual funds as an opportunity and are aggressively pursuing them," said Joseph T. Grause Jr., vice president of Fidelity Investments Institutional Services Co. "Then there's a larger group of banks that are experimenting — some of them aggressively, some more cautiously. And a third group are acting purely defensively."

A serious commitment to marketing mutual funds means risking self-disintermediation. The chance that a successful mutual fund operation will cannibalize the bank's deposits is a lingering fear for a money center bank that relies on deposits as a source of cheap funding, pointed out Robert Hutchinson, senior vice president of Manufacturer's Hanover Trust Co.

Big banks are probably more eager to create their own mutual funds than to sell those of others. Eighteen of 38 survey respondents say they are already investment advisors to funds and five say they soon will be.

Other surveys have shown the same interest. In an Alliance Capital Management survey last year, 40 of 148 big commercial banks said they would seriously consider developing their own

> The fact that banks' mutual fund activities are so fragmented suggests that senior management is not seriously committed to the business.

mutual funds should Glass-Steagall be modified to allow that.

But both banking and mutual fund industry sources say the decision to manage a fund should not be made lightly. The ambition is unrealistic if the bank can't hope to achieve at least $100 million in assets, according to most mutual fund experts. A few put the figure lower, from $25 million to $50 million.

"Will the fund be big enough to defray the costs the bank will incur by being investment adviser? They include outside auditors and lawyers, registration fees, portfolio managers," said Sheila Penrose, senior vice president of Northern Trust Co. and chairman of its subsidiary, Northern Trust Brokerage Inc. "These are all charges against the fund and affect its performance."

Many bankers think a fund investment adviser earns its fee — typically based on a percentage of fund assets — regardless of fund size, said Mr. Grause.

"But there are a lot of fixed costs on a mutual fund — transfer agency, record keeping, insurance, as well as auditors and outside legal counsel. State blue-sky restrictions limit the expense ratios on a fund. The adviser's 40 to 50 basis points are going to be reduced by every excess dollar of expenses," he said.

To be successful, bank-managed funds must fit the bank's image, added Ms. Penrose. Northern Trust offers three conservative funds — money market, government securities, and tax-exempt — that are identified with the bank's fiduciary role. Total assets under management were $1.9 billion at the end of 1987.

Bank-managed equity funds have not sold well, even when their performance was excellent, noted Michael Lipper, president of Lipper Analytical Services, Summit, N.J.

There's little doubt that fund providers would rather pay banks to sell their funds than help them create their own. Fidelity, for instance, has helped 10 banks create proprietary funds. But it has agreements with 70 institutions to offer Fidelity funds, and provides brokerage services to 275 more.

Survey responses show that a handful of well-known fund company names — Dreyfus, Fidelity, Federated, Kemper — predominate among the products banks make available to their customers.

The better known a fund, the easier it is to sell — but the best-known funds offer banks the smallest compensation. For example, a bank will earn a 2% fee for selling Fidelity's Magellan Fund, but could earn 4.25% by marketing one of Fidelity's less known Plymouth funds.

Bankers' product preference is for household-name funds. But their methods of marketing them vary widely:

- The trust department typically has the most investable funds. But its marketing abilities are usually undeveloped. "Most bank customers have no idea what the trust department does," noted John J. DeMarco, senior vice president of PSI, a Tampa, Fla.-based consulting firm.
- The bond department, sometimes called the investment or dealer department, is usually the bank's most aggressive marketer. "Bond salesmen know how to sell — they're the best sellers of product, but they have a narrow, limited view," said Matthew Sola, researcher and author of a 1986 report on bank mutual fund activity for the Washington-based Council on Financial Competition. "They just call their usual customers."
- The discount brokerage affiliate, like the bond department, has trained and licensed salespeople, and tends to be most banks' first choice for marketing funds.

But discount brokerage does not offer hand-holding, pointed out Manufacturers Hanover's Mr. Hutchinson — it offers execution of trades for people who already know what they want.

- Direct mail typically produces only a small response rate, and can be used only for no-load funds, which don't generate much in fees for the bank. "The money in no-load funds is in asset management," said Mr. Hutchinson.

None of these methods is particularly successful at tapping the enormous retail customer base that most banks and mutual fund companies see as the really big potential market. Discount brokerage customers, in fact, are often not branch customers.

For state-chartered banks like Manufacturers Hanover, which are allowed to make funds available but not actively market them, one option is hiring a third party to do the selling.

"That was not for us," said J. Terrence Murray, senior vice president of Northern Trust Bank. "We wanted control of the sales process. Besides, our clients do a lot of things with us besides buying mutual funds, and we want to protect the relationship."

Manufacturers Hanover sees it differently. The bank agreed late last year to have third-party marketer Pamco Securities & Insurance Services sell mutual funds at 10 New York City branches.

"We have concluded just making mutual funds available is not enough to get a lot of business," said Mr. Hutchinson.

The problem with selling through a third party is that the bank gives up a degree of control and some revenue, said Matthew Sola, a researcher for the Council on Financial Competition.

"But I've talked with some big banks that expressed regret they didn't do it with a networking partner," he added. "It may be worth what a bank gives up, to get the training, the recommendations, the materials." ■

Mutual Funds Research:

Positioning in a Volatile Market

Response Analysis Corporation, a Princeton, New Jersey, marketing research firm, just completed a multisponsor research project on the *post-crash* mutual fund market. This study is designed to help new as well as established mutual fund distributors.

STUDY OBJECTIVES:

- To determine mandatory product features, from a consumer and third-party distributor perspective, in a volatile market
- To profile mutual fund customers and prospects and to determine how they differ
- To define how various mutual fund products are differentiated by consumers and third-party distributors and how they are differentiated from competing investment products
- To define the best communications and distribution methods
- To assess consumer receptivity to mutual funds offered by different types of distributors

Research activities include face-to-face interviews with mutual fund owners and prospects, telephone interviews with third-party distributors and with marketing officers of large banks and thrifts, and an analysis of print ads before and after the October 1987 Crash.

For information on how you can purchase this research, call Debbie Stern, Senior Research Director, at (609) 921-3333.

Response Analysis is also launching a multisponsor study on the market for **non-qualified annuities**. For more information on sponsorship or to discuss any *custom* research needs, call Roy Baldassari or Debbie Stern.

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by Dr. Paul S. Nadler
every Monday in
American Banker

Dear Reader, How Are We Doing?

The *American Banker* wants to make sure our special report on mutual funds meets your information needs. So would you spend a moment to give us some feedback? Please clip out this questionnaire and return to: William Zimmerman, Editor, American Banker, One State Street Plaza, New York, N.Y. 10004 (212) 943-5712.

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(2.) What do you like **best** about the report on mutual funds?

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(4.) How do you use the report on mutual funds in your work?

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